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April 30, 2012

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007-2996

Arizona Corporation Commission
DOCKETED

APR 30 2012

DOCKETED BY *JM*

Re: Compliance Filing of Arizona Public Service Company Regarding APS Expense Reduction Commitment, Docket No. E-01345A-08-0172 (2009 APS Settlement Agreement).

Dear Sir or Madam:

As part of its 2009 rate case settlement (the "2009 Settlement")¹, APS agreed to sustain \$20 million worth of expense savings reported to the Commission in 2009, and to continue to reduce expenses by an annual average amount of \$30 million each year through 2014, for a cumulative total reduction of \$150 million.

APS is acutely focused on cost management, not only to comply with its 2009 Settlement obligation, but also to show customers, stakeholders, investors, credit rating agencies, and the Commission that APS is a company that is committed to fiscal responsibility. That focus is critical both for APS to meet its expense reduction commitment and to strengthen the Company's credit quality and financial metrics during both the 2009 Settlement term and the 2012-2016 term of APS's more recent Settlement Agreement, filed in Docket No. E-01345A-11-0224. Towards those ends, APS has undertaken a comprehensive, strategic cost management initiative in an effort to continue to make operations more efficient and further drive costs down where appropriate.

In 2011, APS removed at least \$36,100,000 in expenses from its cost structure. These savings include the following:

Area	Action Taken	2011 Expense Savings
Supply Chain Savings	Improved sourcing in the acquisition of computer-related software and hardware and in the acquisition of services for contract labor.	\$1,500,000

¹ Approved by the Commission in Decision No. 71448 (December 30, 2009). The expense reduction commitment is located in Section VII of the Settlement Agreement.

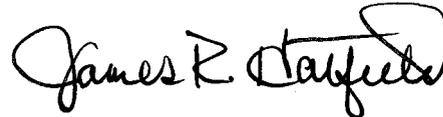
Area	Action Taken	2011 Expense Savings
Fossil Generation Dept Efficiency Improvements	Continued to implement operating efficiencies that allowed for additional reductions in staffing levels, improved outage management, and improved identification and resolution of equipment condition deficiencies.	\$4,600,000
Energy Delivery Dept Process Efficiencies	On-going implementation of the "SOAR" (Standardize, Organize, Automate, Review) initiative enabled further reductions in staffing levels, related labor costs and outside consultant/contractor costs.	\$1,700,000
Information Services Dept Savings	Further reduced staffing and contractor levels and other labor related costs.	\$1,900,000
Absence Management Benefit Costs	Modified administration of short- and long-term disability leave and other leave programs, resulting in more effective case management and processing of disability claims, improved return-to-work of employees and reduced fees associated with our workers compensation program.	\$2,500,000
Medical Benefit Costs	Reduced medical benefit program costs by consolidating various program offerings under a single vendor, resulting in a broader medical network of doctors and hospitals at lower fees, improved management of and lower costs for medical claims, and more robust health and wellness management offerings to employees.	\$2,400,000
Human Resources Dept savings	Reduced headcount and labor related costs in training and employee relations areas.	\$800,000
Customer Service and Marketing Dept savings	Continued to implement various initiatives, including the promotion of paperless-only billing (now the preferred method for 225,000 customers) to reduce administrative costs; improve self-serve options for payment confirmation, which reduced call center call volume and headcount; make various scheduling and staffing changes in the call center to increase efficiencies and reduce overtime; and improve efficiencies and reduce headcount in the marketing and community development areas.	\$2,400,000
APS share of Palo Verde on-going efficiencies	Continued to increase the efficiency of plant processes and operations, which allowed for additional headcount reduction and reduced labor costs.	\$1,300,000
Finance Dept savings	Reorganized and reduced staffing and contractor levels, resulting in lower costs associated with, for example, headcount levels, outside services fees, damage claims and training costs.	\$2,300,000
Power Marketing and Resource Planning Depts savings	Reduced costs associated with headcount savings and lower consultant/contractor fees.	\$2,000,000
Law Department and Government Affairs Depts savings	Performed more work in-house thereby reducing outside legal counsel and consultant/contractor costs.	\$800,000

Letter to Docket Control
April 30, 2012

Area	Action Taken	2011 Expense Savings
Interest Savings	Saved interest costs in 2011 related to the accumulated reduced expenditures from 2010 to present.	\$5,000,000
Management and Employee Compensation	Maintained 2008 base compensation levels in 2009 for all management employees and many non-union front line employees, resulting in continued savings in 2011.	\$6,000,000
Contractor Wage Freeze	Maintained 2008 wage or salary levels in 2009 for APS contractors, resulting in continued savings in 2011.	\$900,000
TOTAL		\$36,100,000

As discussed above, APS has been and remains committed to a Company-wide emphasis on efficiency and cost management, both during the 2009 Settlement term and beyond. This letter reports a savings of over \$36 million in 2011 and satisfies the Company's compliance obligations for 2011 under Section VII of the 2009 Settlement Agreement.

Sincerely,



James R. Hatfield

cc: Parties to the Docket;
Original and 13 copies to Docket Control

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